

LEASE AGREEMENT

By and Between

**REDEVELOPMENT AGENCY OF THE CITY
OF SANTA BARBARA**

and

CARTER HAWLEY HALE STORES, INC.

TABLE OF CONTENTS

	<u>Page</u>
ARTICLE 1 - DEFINITIONS.....	3
1.1 REA Definitions.....	3
1.2 Improvements.....	3
1.3 Lease Premises.....	3
ARTICLE 2 - PREMISES.....	4
ARTICLE 3 - TERM.....	4
ARTICLE 4 - MAJOR'S OPERATION.....	5
ARTICLE 5 - USE OF DEMISED PREMISES.....	5
5.1 Use.....	5
5.2 Waste.....	6
5.3 Obligation to Refrain From Discrimination.....	6
ARTICLE 6 - CONDITION OF TITLE.....	6
6.1 Covenant of Title.....	6
6.2 Condition of Lease Premises.....	7
ARTICLE 7 - IMPROVEMENTS.....	8
7.1 Construction by Major.....	8
7.2 Agency's Nonresponsibility for Improvements....	9
7.3 Certificate of Completion.....	9
ARTICLE 8 - TAXES AND ASSESSMENTS.....	11
8.1 Payment of Impositions (Including Taxes and Assessments).....	11
8.2 Separate Assessment.....	13
8.3 Tax Receipts.....	14
8.4 Permitted Contests.....	14
8.5 Limits of Tax Liability.....	16
8.6 Unpaid Impositions - Right to Cure.....	16
ARTICLE 9 - INSURANCE.....	17
9.1 Insurance.....	17
9.2 Application of REA.....	17
ARTICLE 10 - UTILITIES.....	18
ARTICLE 11 - MECHANICS' LIENS.....	18
ARTICLE 12 - MAJOR'S FINANCING.....	19
12.1 Leasehold Mortgages.....	19
12.1.1 General Provisions.....	19
12.1.2 Refinancing.....	22

12.2 Rights and Obligations of Leasehold Mortgagees.....	23
12.3 Performance on Behalf of Major.....	31
12.4 Mortgagee's Transferees.....	31
12.5 Nonmerger.....	32
12.6 Agency Cooperation.....	33
12.7 Enforceability.....	33
ARTICLE 13 - DEFAULTS, REMEDIES AND TERMINATION.....	34
13.1 Legal Actions.....	34
13.1.1 Institution of Legal Actions.....	34
13.1.2 Applicable Law.....	34
13.1.3 Acceptance of Service of Process.....	34
13.2 Rights and Remedies are Cumulative.....	35
13.3 Default.....	35
13.3.1 Events of Default.....	35
13.3.2 Events of Default/Monetary and Nonmonetary Defaults.....	39
(A) Nonmonetary Defaults.....	39
(B) Monetary Defaults.....	40
13.4 Agency Rights of Termination and Reentry.....	41
13.5 Recovery Upon Termination.....	44
13.6 Additional Remedies of Agency.....	45
13.7 Unperformed Covenants by Agency.....	47
ARTICLE 14 - ATTORNEYS' FEES.....	49
ARTICLE 15 - NOTICES.....	50
15.1 Notices to Parties.....	50
15.2 Mortgagee Notice.....	51
15.3 Change of Address.....	52
ARTICLE 16 - ESTOPPEL CERTIFICATE.....	53
ARTICLE 17 - TITLE TO IMPROVEMENTS.....	54
ARTICLE 18 - ALTERATIONS AND ADDITIONS.....	56
18.1 Maintenance.....	56
18.2 Alterations and Additions.....	56
ARTICLE 19 - TRANSFER AND ASSIGNMENT.....	57
19.1 Warranty Against Speculation.....	57
ARTICLE 20 - EMINENT DOMAIN.....	59
20.1 Major to Give Notice.....	59
20.2 Total and Substantial Taking.....	60
20.3 Partial Taking.....	60
20.4 Application of Net Awards and Other Payments...	61
ARTICLE 21 - DESTRUCTION AND RESTORATION.....	61
21.1 Obligations of Major.....	61

21.2 Destruction Not A Release.....	62
21.3 Termination of Lease.....	62
21.4 Application of REA.....	63
ARTICLE 22 - ARBITRATION.....	63
ARTICLE 23 - REA	64
ARTICLE 24 - INDEMNIFICATION BY MAJOR.....	65
ARTICLE 25 - MISCELLANEOUS.....	65
25.1 Successors and Assigns.....	65
25.2 Language.....	66
25.3 Memorandum of Lease.....	66
25.4 Force Majeure.....	66
25.5 Correction of Legal Description of Lease Premises.....	67
25.6 Counterparts.....	67
25.7 Invalidity.....	67
25.8 No Agency.....	68
25.9 Effect of Agency's Conveyance.....	68
EXHIBIT ** - PROJECT COSTS.....	70

LEASE AGREEMENT

This Lease Agreement ("Lease") is entered into as of this 24th day of February, 1989, by and between REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA ("Agency"), a public body, corporate and politic, organized and existing under and by virtue of the California Community Redevelopment Law (Section 33000 et seq. of the Health and Safety Code of the State of California) and CARTER HAWLEY HALE STORES, INC., a Delaware corporation (together with its successors and assigns, either "Major" or "Broadway").

R E C I T A L S

A. SANTA BARBARA ASSOCIATES, a California general partnership (together with its successors and assigns, "Developer") and Agency have entered into that certain Disposition and Development Agreement dated November 1, 1987, by and between Agency and Developer ("DDA"). The DDA provides for the construction, development, ownership and operation of a regional shopping center ("Shopping Center") on property described therein located in the City of Santa Barbara, County of Santa Barbara, State of California of which the Lease Premises described herein is a part.

B. Pursuant to the DDA, Developer and Agency have entered into an air rights and ground lease of certain real property constituting other portions of the Shopping Center pursuant to that certain Ground and Air Rights Lease dated February 24, 1989, by and between Developer and Agency.

C. Pursuant to the DDA, Agency desires to lease to Major a portion ("Lease Premises") of the Shopping Center consisting of one or more vertical air rights parcels as more particularly described in Exhibit "A" attached hereto and described as the "Tract" of Major in that certain Construction, Operation and Reciprocal Easement Agreement ("REA") of even date herewith by and among Agency, Developer, Major and Nordstrom, Inc., and designated as Major Component _____ on the Site Plan attached hereto as Exhibit "B."

D. Major desires to lease the Lease Premises from Agency on the terms and conditions contained herein for the purpose of constructing, Operating and maintaining a retail building on the Lease Premises as an integral part of the Shopping Center in accordance with the terms and conditions set forth below and in the REA.

∴ NOW, THEREFORE, in consideration of the foregoing, one dollar and other good and valuable consideration, receipt and

sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

ARTICLE 1

DEFINITIONS

For purposes of this Lease, the following terms, as used in the singular or the plural, shall have the following meanings:

1.1 REA Definitions. Unless otherwise specifically defined in this Lease, capitalized terms used in this Lease shall have the same meanings as given to said terms in the REA.

1.2 Improvements. "Improvements" shall mean the Broadway Improvements defined and referred to in the REA upon the Lease Premises during the term of this Lease, and any restoration, addition or replacement thereof.

1.3 Lease Premises. "Lease Premises" shall mean that certain real property described in Exhibit "A" attached hereto and referred to as the "Tract" of Major in the REA.

∴

ARTICLE 2

PREMISES

Agency hereby demises and leases unto Major, and Major hereby leases from Agency, for the consideration and upon and subject to the terms and conditions herein set forth, the Lease Premises, together with all appurtenances, rights, licenses, privileges and easements thereunto belonging or in anywise appertaining.

ARTICLE 3

TERM

The term of this Lease (hereinafter sometimes referred to as the "Lease Term") shall be for a period of seventy-five (75) years, commencing on the date of the recordation of a memorandum of this Lease by Agency (the "Effective Date") and terminating seventy-five (75) years thereafter, or on the date resulting from an earlier termination as hereinafter set forth.

ARTICLE 4

MAJOR'S OPERATION

Major covenants and promises to Agency that, subject to the provisions of Article 16 (Eminent Domain) and Section 28.1 (Force Majeure) of the REA, its Store will be open for business on or before the time required by Section 8.4 of the REA and that it will thereafter comply with its obligations set forth in Section 18.1 of the REA.

ARTICLE 5

USE OF DEMISED PREMISES

5.1 Use. Major covenants and agrees to use the Lease Premises in accordance with applicable laws, statutes, codes, acts, ordinances, orders, rules and regulations of any governmental authority having jurisdiction, which may be applicable to the Lease Premises or Improvements located thereon, including, but not limited to, the Project Approvals, and in accordance with its obligations under the REA, including its covenant and agreement pursuant to Section 18.1 of the REA, and for no other purpose.

5.2 Waste. Major shall not commit, or cause to be committed, any waste or nuisance upon the Lease Premises, or any nuisance, or other act or thing which may disturb the quiet enjoyment of any other tenant or occupant of the Shopping Center.

5.3 Obligation to Refrain From Discrimination. Major covenants and agrees for itself, its successors and assigns and every successor in interest to the Lease Premises or any part thereof, that there shall be no discrimination against or segregation of any person, or group of persons on account of sex, marital status, race, color, religion, creed, national origin or ancestry in the sale, lease, transfer, use, occupancy, tenure or enjoyment of the Lease Premises, nor shall Major or any transferee of Major or any person claiming under or through Major establish, or permit any such practice or practices of discrimination or segregation with reference to the selection, location, number, use or occupancy of tenants, lessees, subtenants, sublessees or vendees of the Lease Premises.

ARTICLE 6

CONDITION OF TITLE

6.1 Covenant of Title. Agency warrants and represents that this leasehold in the Lease Premises is delivered to Major free and clear of all recorded encumbrances, covenants,

conditions, restrictions, equitable servitudes, assessments, easements, leases, taxes and other defects which inhibit, prevent or prohibit or which delay or substantially increase the cost of the development of the Lease Premises in accordance with plans, drawings and related documents approved by Agency. Major further acknowledges its receipt of an ALTA title insurance policy from Agency insuring Major's leasehold interest in the Lease Premises.

6.2 Condition of Lease Premises. As between Major and the Agency, Major shall take delivery of possession of the Lease Premises from Agency in its "as is" condition. Major acknowledges that it has investigated (or has had an opportunity to investigate) the condition of the soil beneath the Lease Premises and the suitability of the Lease Premises for construction and development of Major's Improvements. Agency makes no representation or warranty, express or implied, as to the physical condition of the Lease Premises, including, but not limited to, the condition of the soil beneath the Lease Premises, the geology of the Lease Premises, the presence of known and unknown faults, or the suitability of the Lease Premises for the construction and use of the Improvements thereon. Notwithstanding the provisions of this Paragraph 6.2, if Agency has cured a soil, geologic or seismic condition or removed or protected the Project Site from Hazardous Substances in accordance with Section 215.C of the DDA, Agency shall

warrant at the Close of Escrow, as that term is defined in the DDA, that the Lease Premises are conveyed free of the soil, geologic or seismic condition or of the Hazardous Substance that Agency has cured, removed or protected.

ARTICLE 7

IMPROVEMENTS

7.1 Construction by Major. Major shall construct or cause the construction of the Improvements, including the Broadway Envelope Mall Stores and Major's portion of the On-Site Parking Structure, in accordance with Article 8 of the REA (and, in the case of the On-Site Parking Structure, the Parking Agreement) and within the time set forth in the Schedule of Performance attached to the REA. Major shall perform or cause the performance of such construction at its sole cost and expense (or at the cost and expense of others than Agency). Agency acknowledges and agrees that Developer is responsible for removing surface and subsurface improvements from the Lease Premises and performing Pad Preparation Work prior to the commencement by Major of its construction of Improvements, and that Major shall have no obligation to commence its construction of Improvements until such work has been completed by Developer.

7.2 Agency's Nonresponsibility for Improvements.

Agency shall not under any circumstances whatsoever be required to build any improvements on the Lease Premises, or to maintain or make any repairs, replacements, alterations or renewals of any nature or description to the Improvements.

7.3 Certificate of Completion. Promptly after

completion of all construction and development of the Lease Premises as set forth in this Article 7, Major may request and Agency shall furnish Major with a Certificate of Completion therefor, within ten (10) days from the date upon which written request therefor is made by Major. Agency shall not unreasonably withhold any such Certificate of Completion. Such Certificate of Completion shall be, and shall state that it constitutes, conclusive determination of satisfactory completion of the construction and development of the Improvements required by this Lease, and of full compliance with the terms of each with respect thereto."

After recordation of a Certificate of Completion, any party then owning or thereafter purchasing, leasing or otherwise acquiring any interest in the Lease Premises for which such Certificate was issued, shall not (because of such ownership, purchase, lease or acquisition) incur any obligation or liability under this Lease with respect to the construction of Improvements, except that such party shall be bound by all of

the other covenants, promises and agreements contained in this Lease or other instrument of transfer made in accordance with this Lease. Neither the Agency nor any other person, after issuance of a Certificate of Completion, shall have any rights, remedies or controls that it would otherwise have or be entitled to exercise under this Lease as a result of a default in or breach of any provision of this Lease and the DDA with respect to completion of Improvements.

A Certificate of Completion shall be in such form as to permit it to be recorded in the Recorder's Office of Santa Barbara County.

If the Agency refuses or fails to furnish a Certificate of Completion after a written request therefor by any entity entitled thereto pursuant to this Section 7.3, the Agency shall, within ten (10) days of the next regularly scheduled Agency meeting after such written request, provide the requesting party with a written statement of the reasons why the Agency refuses or fails to furnish such Certificate of Completion. The statement shall also contain the Agency's opinion of the action that must be taken to obtain such Certificate of Completion. If the reason for such refusal is confined to the immediate unavailability of specific minor items or materials, the Agency will issue its Certificate of Completion upon the posting of a bond (or other security

satisfactory to the Agency) by such requesting party with the Agency in an amount representing the estimated reasonable cost of the work not yet completed. If the Agency shall have failed to provide such written statement within said 10-day period, the requesting entity shall be deemed entitled to the Certificate of Completion. Agency agrees that the agreement of Major to indemnify Agency against the cost of completion of such items of work shall be satisfactory security if Major qualifies to self-insure pursuant to Section 13.14.2 of the REA.

Such Certificate of Completion shall not constitute evidence of compliance with or satisfaction of any obligation of Lessee to any holder of a mortgage, nor to any insurer of a mortgage securing money loaned to finance the improvements or any part thereof. Such Certificate of Completion is not notice of completion as referred to in California Civil Code Section 3093.

ARTICLE 8

TAXES AND ASSESSMENTS

8.1 Payment of Impositions (Including Taxes and Assessments). Except as expressly provided in the REA and the Parking Agreement, Major agrees to pay all taxes and assessments upon the Lease Premises in accordance with and pursuant to the

provisions of Sections 22.1 and 22.2 of the REA. Major's right to contest under Section 22.2 shall include the right to protest the formation of any special assessment district or area other than the formation of a downtown parking district including the Onsite Parking Tract and the Offsite Parking Parcels or any pocket assessment district as contemplated in or formed in accordance with the Parking Agreement, and the right to protest any assessments levied on the Lease Premises other than the assessments or fees levied by Agency in accordance with the Parking Covenants. Nothing contained in this section shall limit Major's rights to contest as contained in Section 8.4 hereof.

All such taxes, franchises, excises, license and permit fees, and other governmental levies and charges shall hereinafter be referred to collectively as "Impositions" and individually as an "Imposition." Major shall pay, or cause to be paid, all Impositions directly to the authority imposing such Imposition. Any Imposition relating to a fiscal period of the taxing authority, a part of which period is included within the Lease Term and a part of which is included in a period of time before the commencement or after the expiration of the Lease Term shall be prorated between Agency and Major, so that Major shall pay only that portion of such Imposition allocable to the Lease Term and Agency shall pay that portion of the Imposition allocable to the period before or after the Lease Term.

8.2 Separate Assessment. The Lease Premises shall constitute a separate assessment parcel and all Impositions allocable to the Lease Premises shall be separately assessed by the assessing entity. The Lease Premises leased to Major hereunder shall be assessed and taxed as contemplated in California Health and Safety Code Section 33673 and all amendments thereto or replacements thereof, which section provides as of the date hereof as follows:

"Whenever property in any redevelopment project has been redeveloped and thereafter is leased by the redevelopment agency to any person or persons or whenever the agency leases real property in any redevelopment project to any person or persons for redevelopment, the property shall be assessed and taxed in the same manner as privately owned property, and the lease or contract shall provide that the lessee shall pay taxes upon the assessed value of the entire property and not merely the assessed value of his or her leasehold interest."

Pursuant to Section 107.6 of the California Revenue and Taxation Code, Agency states that Major's leasehold interest in the Lease Premises may be subject to property taxation on the possessory interest created by this Lease, and that Major may be subject to the payment of property taxes levied on such leasehold interest.

8.3 Tax Receipts. Upon written request by Agency, Major shall furnish to such requesting party within forty-five (45) days after the date when an Imposition would become delinquent, official receipts of the appropriate taxing authority or other evidence satisfactory to the requesting party evidencing payment of such Imposition.

8.4 Permitted Contests. Major shall have the right to contest the validity or the amount, in part or in full, of any Imposition which it is obligated to pay under the provisions of this Lease. Major agrees that all such proceedings shall be begun without undue delay after any contested item is imposed and shall be prosecuted to final adjudication with reasonable dispatch. Major's right to contest under this Section 8.4 shall include the right to protest the formation of any special assessment district or area other than the formation of a downtown parking district including the Onsite Parking Tract and the Off-Site Parking Parcels or any pocket assessment district as contemplated in or formed in accordance with the REA, and the right to protest any assessments levied on the Lease Premises other than the assessments or fees levied by Agency in accordance with the Parking Covenant. In addition, Major shall have the right to protest any additional transportation improvement fees or assessments levied by the City of Santa Barbara on the Lease Premises after the Effective Date, unless Major increases the Floor Area of the Improvements on the Lease

Premises beyond the limit imposed by the Project Approvals and the REA.

Major shall give Agency prompt notice in writing of any such contest at least ten (10) days before any delinquency occurs if Major intends to withhold payment of the Imposition pending determination of the contest or at least ten (10) days before institution of any contest if Major intends to contest such Imposition subsequent to payment thereof. Major may only exercise its right to contest an Imposition hereunder while withholding payment thereof if (i) the subject legal proceedings shall operate to prevent the collection of the Imposition so contested, or the sale of the Lease Premises, or any part thereof, to satisfy the same, or (ii) if Major shall, prior to the date such Imposition is due and payable, have given such reasonable security as may be required by Agency from time to time in order to ensure the payment of such Imposition, or to prevent any sale, foreclosure or forfeiture of the Lease Premises or any part thereof, by reason of such nonpayment; provided, however, that Major shall not be required to post security with Agency if Major then meets the requirements for self-insurance under Section 13.14.2 of the REA. In the event of a final determination adverse to Major of any such contest, Major shall, before any additional fine, interest, penalty or cost may be added thereto for nonpayment thereof, pay fully and discharge the amount involved in or affected by such contest,

together with any penalty, fine, interest, cost and/or expense that may have accrued thereon or that may result from any such contest by Major.

Any such proceedings to contest the validity or amount of any Imposition or recover back any Imposition paid by Major shall be prosecuted by Major at Major's sole cost and expense, and Major shall indemnify and hold harmless Agency against any and all loss, cost or expense of any kind, including, but not limited to, reasonable attorneys' fees and expenses which may be imposed upon or incurred by Agency in connection therewith.

8.5 Limits of Tax Liability. The provisions of this Lease shall not be deemed to require Major to pay municipal, county, state or federal income or gross receipts or excess profit taxes assessed against Agency, or municipal, county, state or federal capital levy, estate, succession, inheritance, gift, or transfer taxes of Agency.

8.6 Unpaid Impositions - Right to Cure. If Major, in violation of the provisions of this Lease, shall fail to pay and to discharge any Imposition, Agency may (but shall not be obligated to) pay or discharge it, and the amount paid by Agency and the amounts of all costs, expenses, interest and penalties connected therewith, including attorneys' fees, together with

interest at the rate of three percent (3%) plus the Reference Rate (but in no event in excess of the maximum rate allowed by law) from the date payment is made by Agency shall be deemed to be and shall be due and payable by Major and shall be reimbursed to Agency by Major on written demand therefor. The right of Agency to pay or discharge any Imposition that Major has failed to pay or discharge shall not apply to any Imposition that Major elects to contest under this Lease; provided that Major's contest while withholding payment is in accordance with Section 8.4 hereof. The Major's agreement to indemnify the Agency shall be sufficient for Agency as long as the Major qualifies to self-insure pursuant to Section 13.4 of the REA.

ARTICLE 9

INSURANCE

9.1 Insurance. Major shall maintain, or cause to be maintained, insurance on the Lease Premises as and if required by, and subject to all of the terms and conditions contained in, Article 10 and Article 13 of the REA.

9.2 Application of REA. So long as the REA is in full force and effect, Major shall comply with the insurance requirements stated therein as respects the Lease Premises and the Improvements constructed thereon. In the event of the

termination of the REA, then Article 13 of the REA shall be incorporated herein by reference and Major shall continue to be subject to the insurance requirements set forth in Article 13 during the balance of the Lease Term.

ARTICLE 10

UTILITIES

Major shall install or cause to be installed on the Lease Premises, at its own expense or at the expense of others than Agency, all standard utility systems that Major will require for the Improvements and shall cause such utilities to be connected to the standard utility systems provided to the Lease Premises in accordance with the REA.

ARTICLE 11

MECHANICS' LIENS

Major covenants and promises to Agency that Major will protect the Lease Premises from mechanics', materialmen's contractors' or subcontractors' liens and to indemnify and hold Agency free and harmless of such liens as such covenants and promises are made to a Party under Section 10.8 of the REA and in the manner and subject to the conditions therein stated.

ARTICLE 12

MAJOR'S FINANCING

12.1 Leasehold Mortgages.

12.1.1 General Provisions. From time to time during the Lease Term, Major shall have the right to mortgage, pledge, deed in trust, assign rents, issues and profits and/or collaterally (or absolutely if required by any lender) assign its interest in this Lease for the purposes of security, or otherwise encumber this Lease, and/or the interest of Major hereunder, in whole or in part, and any interests or rights appurtenant to this Lease, including, but not limited to, Major's interest in the REA and Parking Covenants, and to assign or pledge the same as security for any debt (the holder of any such mortgage, pledge or other encumbrance, and the beneficiary of any such deed of trust being hereafter referred to as "Mortgagee" and the mortgage, pledge, deed of trust or other instrument being hereafter referred to as "Mortgage"), upon and subject to each and all of the following terms and conditions.

(A) Mortgages may be made for any purpose and for any amount and upon any terms including term of the loan, interest rates, payment terms including balloon or amortizing loans, prepayment privileges or restrictions as

desired by Major, except as expressly otherwise provided by the provisions of this Article 12.

(B) Between the Effective Date of this Lease and the date of recordation of the Certificate of Completion provided for in Section 7.3 above (the "Construction Period"), Mortgages shall be limited in purpose to and shall not exceed the amount necessary and appropriate to develop the Improvements on the Lease Premises and to acquire and install equipment and fixtures thereon and costs and expenses associated with the construction of any offsite improvements ("Project Costs"). "Project Costs" shall include all amounts for the items and matters defined as Project Costs in Exhibit C to this Lease. Upon and after the expiration of the Construction Period, the limitation contained in this subsection 12.1.1(B) shall no longer apply to the Lease Premises.

(C) During the Construction Period, Mortgages shall cover no interest in any real property other than Major's interest in the Lease Premises, the REA and the Parking Covenants, or some portion thereof. Any such permitted Mortgage shall be without subordination of the fee simple title or reversionary interest of Agency or of the leasehold interest of Agency.

(D) No such Mortgage shall be binding upon Agency in the enforcement of its rights and remedies herein and by law provided, unless and until a notice of such Mortgage has been delivered to Agency in accordance with Section 24.2 of the REA.

(E) Any number of permitted Mortgages may be outstanding at any one time on all or any portion of the Lease Premises and the Improvements.

(F) The Mortgage shall contain provisions permitting the disposition and application of the insurance proceeds and condemnation awards in the manner provided in the REA.

(G) As used herein, Mortgages shall include, without limitation, purchase money leasehold mortgages which may secure, in whole or in part, the purchase price payable in connection with a permitted conveyance, assignment or transfer described in this Article 12.

(H) All rights acquired by a Mortgagee under a Mortgage shall be subject to each and all of the covenants, conditions and restrictions set forth in this Lease, and to all rights of Agency hereunder, none of which covenants, conditions and restrictions shall be deemed waived by Agency by

reason of the giving of such Mortgage, except as expressly provided in this Article 12 and except as provided in Section 21.9 of the REA. Notwithstanding any foreclosure of any such Mortgage, Major shall remain liable for any payments required under this Lease and the performance of all of the terms, covenants and conditions of this Lease which by the terms hereof are to be carried out and performed by Major.

(I) If Major encumbers its leasehold estate by way of a Mortgage as permitted herein, and should Agency be advised in writing of the name and address of the Mortgagee, then this Lease shall not be terminated or cancelled on account of any default by Major in the performance of the terms, covenants or conditions hereof until Agency shall have complied with the provisions of Section 12.2, below, as to the Mortgagee's rights to cure and to obtain a new lease.

12.1.2 Refinancing. On and after the expiration of the Construction Period, Major may obtain financing (which may be in excess of the Project Costs) for the Lease Premises subject to the following restrictions and requirements:

.. (A) Neither Agency's fee simple estate in the land nor Agency's leasehold interest will be subordinated to any financing or refinancing by Major; and

(B) No Default then exists and no Default will exist upon consummation of the refinancing.

12.2 Rights and Obligations of Leasehold Mortgagees.

If Major, or Major's successors or assigns, shall mortgage the leasehold interest herein demised and the Mortgagee shall register with Agency its name and address in writing, then, as long as any such Mortgage shall remain unsatisfied or of record, the following provisions shall apply:

(A) Agency will not cancel, accept a surrender of or modify this Lease in the absence of a Default by Major without the prior consent in writing of the Mortgagee.

(B) Agency shall give to Mortgagee at such address a copy of each notice or other communication from Agency to Major with respect to any claim that a Default exists or is about to exist hereunder at the time of giving such notice or communication to Major, and Agency will give to Mortgagee a copy of each notice of any rejection of this Lease by any trustee in bankruptcy of Major. Agency will not exercise any right, power or remedy with respect to any Default hereunder, and no notice to Major of any such Default and no termination of this Lease in connection therewith shall be effective, unless Agency has given to Mortgagee written notice or a copy of its notice to Major of such Default or any such termination, as the case may be.

(C) If Major shall be in Default hereunder, Mortgagee shall have the right, within the period and otherwise as herein provided, to remedy such Default, or cause the same to be remedied, and Agency shall accept such performance by or at the instigation of such Mortgagee as if the same had been done by Major. Upon receipt by Mortgagee of the Notice of Major's Default, Mortgagee shall have ninety (90) additional days to remedy or cause to be remedied such Default. Such additional ninety (90) day period shall be extended if the Default is other than the payment of money and such that it is not practicable to cure within such ninety (90) day period if Mortgagee commences such cure within said ninety (90) day period and diligently prosecutes such cure to completion. Major hereby constitutes and appoints Mortgagee as Major's agent and attorney in fact with full power, in Major's name, place and stead, and at Major's cost and expense, to enter upon the Lease Premises and the Improvements, and perform all acts required to be performed herein. No Mortgagee shall have the right to take or perform any action hereunder, under its Mortgage or otherwise, which might result in any detriment to the rights of a prior Mortgagee with respect to this Lease or the Lease Premises.

(D) Notwithstanding the above, if a Default cannot be cured by Mortgagee without acquiring possession of the Lease Premises by foreclosure of its Mortgage, Agency shall not exercise its rights and remedies to terminate this Lease during

the time that Mortgagee shall require to complete its remedies under its Mortgage, subject to the following conditions:

(1) Mortgagee, within one hundred eighty (180) days after it receives notice from Agency of Major's Default, shall diligently prosecute such foreclosure to completion; provided, however, that if the Mortgagee is restrained by a court of competent jurisdiction or by reason of any law, regulation, order or ruling from prosecuting its foreclosure proceeding, such time period shall be tolled;

(2) Mortgagee shall pay to Agency any and all payments and other charges required to be paid by Major hereunder which have accrued and which shall become due and payable during the prosecution of said foreclosure proceeding; and

(3) Either Mortgagee or any purchaser or transferee of Major's interest under the Lease, whether at a judicial foreclosure, trustee sale or by deed in lieu of foreclosure within a reasonable time after the acquisition of such interest, shall cure all defaults thereunder susceptible of being cured by Mortgagee or such purchaser other than obligations of Major to satisfy or discharge any lien, charge or encumbrance junior in priority to the lien of the Mortgage. Nothing contained herein shall prevent Agency from exercising

its right to seek monetary relief from the Major or equitable relief to preserve the Lease Premises and the Improvements during the prosecution of such foreclosure proceeding.

(E) While any Mortgage remains unsatisfied of record and prior to the issuance of a Certificate of Completion, and an event or events shall occur which shall entitle Agency to terminate this Lease, and if before the expiration of thirty (30) days after the date of service of notice of termination under this Lease (but in no event prior to the date Mortgagee is entitled to cure such Default as provided in subsection (C) above) such Mortgagee shall have paid to Agency all payments herein provided for then in Default, and shall have complied or shall be engaged in complying with all other requirements of this Lease, if any, then in Default, and which such Mortgagee is capable of complying with, then Agency shall not be entitled to terminate this Lease and any notice of termination theretofore given shall be void and of no effect. Upon obtaining possession of the Leased Premises after foreclosure of its mortgage (or pursuant to a deed or other transfer in lieu of foreclosure after default), the Mortgagee shall have an additional cure period ("Cure Period") within which to either (i) assume Lessee's obligations to construct the Improvements in accordance with Article 4.0 of the REA or (ii) use diligent effort to find a person having the qualifications set forth in Section 8.2.1(F)(4) of the REA to perform such obligations, and to

commence construction of the Improvements; provided further that the Cure Period shall in no event exceed one year from the date Mortgagee obtained such right to possession.

(F) If Agency elects to terminate this Lease pursuant to any right of termination resulting from a Default by Major hereunder, then any Mortgagee, in addition to all other rights herein granted such Mortgagee, shall have the right to be subrogated to any and all rights of Major with respect to curing of any Default.

(G) Any payment to be made or action to be taken by a Mortgagee hereunder as a prerequisite to obtaining a new lease or keeping this Lease in effect shall be deemed properly to have been made or taken by the Mortgagee if such payment is made or action taken by a permitted nominee, agent or assignee of the right of such Mortgagee.

(H) The parties hereto shall give the Mortgagee notice of any condemnation proceedings affecting the Lease Premises or any rights or interests appurtenant to this Lease. The Mortgagee shall have the right to intervene and be made a party to any such condemnation proceedings and the parties hereto do hereby consent that the Mortgagee may be made such party or intervenor.

(I) No Mortgagee nor any owner of the leasehold estate whose interest shall have been acquired by, through or under any Mortgage or shall have been derived immediately from any holder thereof shall become personally liable under the agreements, terms, covenants or conditions of this Lease unless and until such time as the Mortgagee becomes the owner of or in possession of the leasehold estate or the Lease Premises, as applicable, and then only for as long as it remains the owner of or in possession of the leasehold estate or the Lease Premises, as applicable. Upon any assignment of this Lease by any owner of the leasehold estate whose interest shall have been acquired by, through or under any Mortgage or shall have been derived immediately from any holder thereof, the assignor shall be relieved of any further liability which may accrue hereunder from and after the date of such assignment provided that the assignee shall execute and deliver to Agency a recordable instrument of assumption wherein such assignee shall assume the rights and obligations of Major and agree to perform and observe all covenants, conditions and provisions in this Lease, and such assignee shall otherwise comply with Section 20.8 of the REA.

(J) In the event of the termination of this Lease prior to the expiration of the Lease Term due to a Default of Major or operation of law, Agency shall mail by registered or certified mail to the Mortgagee written notice of such termination or expiration, together with a statement of any and

all sums which would at that time be due under this Lease then known to Agency. Such Mortgagee shall have the option to obtain a new lease in accordance with and upon the following terms and conditions:

(1) Upon the written request of Mortgagee within sixty (60) days after service of the aforementioned notice of termination, Agency shall enter into a new lease of the Lease Premises (and the appurtenant interests in the REA and the Parking Covenants) with such Mortgagee, or its designee, as provided in this subsection 12.2(J)(1).

(2) Such new lease shall be effective as of the date of termination or expiration of this Lease and shall be for the remainder of the Lease Term upon the agreements, terms, covenants and conditions contained herein. The new lease and the sublessee thereunder shall be subject to all of the terms and conditions of the REA, including Section 18.5 thereof. Any such new lease entered into with the Mortgagee shall have the same priority as this Lease as between such Mortgagee (as the lessee thereunder) and the holder of any lien or encumbrance on the fee or reversionary interest of the Lease Premises. Upon the execution of such new lease, the lessee named therein shall pay any and all sums which would at the time of the execution thereof be due under this Lease but for the termination or expiration as aforesaid and shall fully otherwise remedy any

existing Defaults under this Lease, and shall pay all expenses, including but not limited to reasonable attorneys' fees, court costs and disbursements incurred by Agency in connection with such Defaults and termination, the recovery of possession of the Lease Premises and the preparation, execution and delivery of such new lease, except that with respect to any such Default which cannot be cured by such lessee until it obtains possession, such lessee shall have a reasonable time after it obtains possession to cure such Default.

(K) Anything herein contained to the contrary notwithstanding, the provisions of this Section 12.2 shall inure only to the benefit of the holders of Mortgages. If the holders of more than one such Mortgage shall make written requests upon Agency in accordance with this Lease, the new lease (as provided for in subsection 12.2(J) above) shall be entered into pursuant to the request of the holder whose Mortgage shall be prior in lien thereto and thereupon the written requests for a new lease of each holder of a Mortgage junior in lien shall be and be deemed to be void and of no force or effect. In the event of any dispute or disagreement as to the respective priorities of any such Mortgages, the certification as to such priorities by a reputable title insurance company doing business in California shall be conclusively binding upon all the parties concerned.

12.3 Performance on Behalf of Major. If Major shall fail to make any payment or perform any act required hereunder to be made or performed by Major, then Agency or Mortgagee, after such notice to Major, if any, as may be reasonable under the circumstances, but except for emergencies not less than twenty (20) days' notice, may, but shall be under no obligation to, make such payment or perform such act with the same effect as if made or performed by Major. Nothing herein shall limit the right of Mortgagee to take action or make a payment if permitted under its Mortgage. Entry by Agency or Mortgagee upon the Lease Premises for such purpose shall not waive or release Major from any obligation or Default hereunder (except in the case of any obligation or Default which shall have been fully performed or cured by Mortgagee). Major shall reimburse Agency (with interest at the Reference Rate) or Mortgagee (with interest as provided in the Mortgage) for all sums so paid by Agency or Mortgagee and all costs and expenses incurred by Agency and Mortgagee in connection with the performance of any such act.

12.4 Mortgagee's Transferees. If the leasehold estate hereunder shall be acquired by foreclosure, trustee's sale or deed or assignment in lieu of foreclosure of a Mortgage, the purchaser at such sale or the transferee by such assignment and its successors as holders of the leasehold estate hereunder shall not be liable for any obligations accruing after its or

their subsequent sale or transfer of such leasehold estate and such purchaser or transferee shall be entitled to transfer such estate or interest without consent or approval of Agency; provided that any transferee or successor to the purchaser or transferee as holder of the leasehold estate hereunder shall comply with the transfer provisions set forth in Article 20 of the REA with respect to any subsequent transfers or assignments and shall be liable for the payment of all sums becoming due and performance of all obligations required with respect to the period during which such transferee or successor is the holder of the leasehold estate hereunder.

12.5 Nonmerger. There shall be no merger of this Lease, or of the leasehold estate created hereby, with the fee estate or reversionary interest in and to the Lease Premises by reason of the fact that this Lease, or the leasehold estate created hereby, or any interest in either thereof, may be held directly or indirectly by or for the account of any person who shall own the fee estate or leasehold interest in and to the Lease Premises, or any portion thereof, and no such merger shall occur unless and until all persons at the time having any interest in this Lease or the leasehold estate, including the Mortgagee and the holder of any mortgage upon the fee estate or leasehold interest in and to the Lease Premises shall join in a written instrument effecting such merger.

12.6 Agency Cooperation. Agency covenants and agrees that it will act and fully cooperate with Major in connection with Major's right to grant Mortgages as hereinabove provided. At the request of Major or any proposed or existing Mortgagee, Agency shall promptly execute and deliver (i) any documents or instruments reasonably requested to evidence, acknowledge and/or perfect the rights of Mortgagees as herein provided, and (ii) an estoppel certificate certifying the status of this Lease and Major's interest herein and such matters as are reasonably requested by Major or such Mortgagees. Such estoppel certificate shall include, but not be limited to, certification by Agency that (a) this Lease is unmodified and in full force and effect (or, if modified, state the nature of such modification and certify that this Lease, as so modified, is in full force and effect), (b) all amounts currently due under the Lease have been paid, (c) there are not, to Agency's knowledge, any uncured Defaults on the part of Major or facts, acts or omissions which with the giving of notice or passing of time, or both, would constitute a Default. Any such estoppel certificate may be conclusively relied upon by any Mortgagee or assignee of Major's interest in this Lease.

12.7 Enforceability. The rights granted herein to Mortgagees shall be enforceable by them. If any action or proceeding is brought to enforce or interpret the provisions hereof or to seek damages or performance or declare the rights

of the parties hereto or such Mortgagees, the prevailing party including such Mortgagees, if prevailing, shall be entitled to attorneys' fees, costs and expenses.

ARTICLE 13

DEFAULTS, REMEDIES AND TERMINATION

13.1 Legal Actions.

13.1.1 Institution of Legal Actions. In addition to any other rights or remedies, either party may institute legal action to cure, correct, or remedy any default, to recover damages for any default, or to obtain any other remedy consistent with the purpose of this Lease. Such legal actions must be instituted in the County of Santa Barbara, State of California, or in the Federal District Court for the Central District of California.

13.1.2 Applicable Law. The laws of the State of California shall govern the interpretation and enforcement of this Lease.

13.1.3 Acceptance of Service of Process. In the event that any legal action is commenced by Agency against Major, service of process on Major shall be made by personal

service upon an officer of Major and shall be valid whether made within or without the State of California, or in such manner as may be provided by law.

If any legal action is commenced by Major against Agency, then service of process on Agency may be made by personal service upon an officer of Agency and shall be valid whether made within or without the State of California, or in such manner as may be provided by law.

13.2 Rights and Remedies are Cumulative. Except with respect to rights and remedies expressly declared to be exclusive in this Lease, the rights and remedies of the parties are cumulative, and the exercise by either party of one or more of such rights or remedies shall not preclude the exercise by it, at the same or different times, of any other rights or remedies for the same default or any other default by the other party.

13.3 Default.

13.3.1 Events of Default. Major shall not permit any one or more of the following events to occur during the Lease Term. If any of the following events shall occur and shall continue for the applicable period described in Section 13.3.2 after notice from Agency, the same shall constitute an

"Event of Default" upon the lapse of such applicable period, subject, nevertheless, to any other provision of this Lease excusing or allowing for delay of performance by Major:

(A) Fail to commence the construction of the Improvements as required by Article 8 of the REA for a period of six (6) months or complete the construction of the Improvements as required by Article 8 of the REA for a period of twelve (12) months (or, for both, such longer period as may be the result of Unavoidable Delay), after written notice thereof from Agency;

(B) Use the Lease Premises for any purpose other than those provided for in this Lease;

(C) Fail or refuse to pay to Agency within thirty (30) days after such payment is due any sums required by this Lease to be paid by Major; provided, however, that if there is a dispute between Agency and Major as to whether any such amount is due or as to the amount due, Major shall not be in default unless it fails to pay the amount due within thirty (30) days after the dispute is resolved among the parties by agreement or a final judgment binding upon Major;

∴

(D) Fail or refuse to pay when due any Impositions as required by this Lease, subject, however, to the

rights of Major to contest such Impositions as permitted by this Lease;

(E) Make or suffer to be made any voluntary or involuntary conveyance, assignment, lease or other transfer of the leasehold interest in the Lease Premises, or any part thereof, or of the rights of Major in violation of the terms of this Lease or of the REA;

(F) Commit or suffer to be committed any waste of the Lease Premises or the Improvements, or any part thereof in violation of this Lease;

(G) Alter the Improvements in any manner in violation of this Lease or the REA;

(H) Fail to maintain insurance as required by this Lease and the REA;

(I) Fail to make full repair and restoration of the Lease Premises and the Improvements in the event of damage or destruction within the time required by the REA if repair and restoration is required by the terms of this Lease or the REA;

(J) Engage in any financing, or any other transaction creating any Mortgage on the Lease Premises or the Improvements, or placing or suffering to be placed thereon any lien or other encumbrance, or suffering any levy or attachment to be made thereon except as permitted by the terms of this Lease;

(K) Voluntarily file or have involuntarily filed against it any petition under any bankruptcy or insolvency act or law which is not vacated within 90 days after the date it is filed, or be adjudicated a bankrupt, or make a general assignment for the benefit of creditors;

(L) Abandon possession of the Lease Premises or the Improvements, or Major's interest therein except as permitted by the REA. Major shall be deemed to have abandoned possession of the Lease Premises or the Improvements, or its interest therein, if and when Major fails to Operate in at least 40,000 square feet of the Floor Area of the Premises in accordance with Section 18.1 of the REA for a continuous period of one year unless such failure is excused under Section 25.4 hereof or under Section 18.4 of the REA;

(M) Fail to perform or comply with any other material term or provision hereof;

(N) Fail to perform or comply with any term or provision of the REA referred to in this Lease as an obligation of Major, including, without limitation, the covenant to Operate pursuant to Section 18.1 of the REA.

The occurrence of any of the events described above shall constitute a "Default" by Major under this Lease.

13.3.2 Events of Default/Monetary and Nonmonetary Defaults.

(A) Nonmonetary Defaults. (i) In the event of any Default (other than Defaults as described in Sections 13.3.1(D) and 13.3.1(L)), Agency shall provide Major with written notice specifying in detail the occurrence of such Default and the actions required to remedy or cure such Default. If Major has not remedied or cured such Default within thirty (30) days after the date of such written notice (or, if it is not practicable to remedy or cure such Default within such period, in the event Major has not commenced the remedy or cure of such Default within such period), Agency shall provide Major with a second written notice specifying in detail the occurrence of such Default and the actions required to remedy or cure such Default. If Major has not remedied or cured such Default within thirty (30) days after the date of such second written notice

(or, if it is not practicable to remedy or cure such Default within such period, in the event Major has not commenced to remedy or cure such Default within such period), the same shall constitute an Event of Default. In no event shall an Event of Default exist with respect to any Default for which it is not practicable to remedy or cure within the period set forth in the immediately preceding sentence, provided Major has commenced the remedy or cure of such Default prior to the lapse of such period and diligently prosecutes such remedy or cure to completion.

(ii) In the event of a Default pursuant to Section 13.3.1(L), Agency shall provide Major with written notice specifying in detail the occurrence of such Default and the actions required to remedy or cure such Default. If Major is not in compliance with Section 18.1 of the REA within one year after the date of such written notice, the same shall constitute an Event of Default.

(B) Monetary Defaults. If Major fails to make any payment required to be made by Major pursuant to this Lease within the time set forth herein, Agency shall provide Major with written notice of such failure to pay. If such failure to pay continues for thirty (30) days after such notice from Agency, the same shall constitute an Event of Default. If there is a dispute between Agency and Major as to whether any such amount is due or as to the amount due, Major shall not be in default unless it fails to pay the amount due

within 30 days after the dispute is resolved among the parties by agreement or a final judgment binding upon Major as provided in Section 13.4.

13.4 Agency Rights of Termination and Reentry. Upon the occurrence of any material Event of Default, Agency may, at its option and in addition to any other remedy provided for in this Lease, but subject to the rights of Mortgagees, terminate this Lease and vest in Agency possession and enjoyment of the reversionary estate of Agency free and clear of the leasehold interest theretofore transferred to Major, by written notice to Major of its intention to do so. Such notice by Agency shall expressly state that an Event of Default has occurred.

Notwithstanding the foregoing, if Major disputes Agency's determination that a Default has occurred and delivers notice of such dispute to Agency prior to the occurrence of an Event of Default pertaining to such Default, and if such dispute is made in good faith, then no such termination of this Lease by Agency shall be permitted during the pendency of any action or proceeding to determine such dispute; provided, however, that if such action or proceeding results in a final determination unfavorable to Major, Major must cure such Default within thirty (30) days following such determination (or, if it is not practicable to cure or remedy such Default within such thirty (30) day period, then Major must commence the curing or

remedying of such Default within said thirty (30) day period and diligently prosecute such cure or remedy to completion).

Failure of Major to cure such Default within the aforesaid period shall entitle Agency to terminate this Lease and any such determination in such action or proceeding may provide for the termination of this Lease conditioned upon permitting Major to cure such Default as herein provided.

Upon termination of this Lease pursuant to this Section 13.4, it shall be lawful for Agency to reenter and repossess the Lease Premises and the Improvements thereon, without process of law, and Major, in such event, does hereby waive any demand for possession thereof, and agrees to surrender and deliver the Lease Premises and the Improvements thereon, peaceably to Agency immediately upon such termination. Upon termination of this Lease, title to all improvements, buildings, structures, furniture, furnishings, fixtures and equipment, except for those items of furniture, furnishings, trade fixtures or business equipment which may be removed by Major pursuant to Article 17 below, shall vest without further compensation in Agency.

After the date on which Major is entitled to be issued a Certificate of Completion for the Improvements pursuant to Section 7.3 of this Lease, Major shall be released from all personal liability except as follows and any judgment obtained

against Major thereafter shall be limited to the aggregate of the following: rent (to the extent that rent is payable pursuant to any amendment of this Lease) and all other fixed and ascertainable monetary obligations of Major under this Lease due, owing or unpaid to Agency as of the date of termination of this Lease. All other obligations and liabilities of Major under the Lease shall be deemed to be nonrecourse as against Major and Agency's sole recourse against Major for any liabilities in excess of the foregoing shall be against Major's interest in the Lease Premises. Except as otherwise provided above, nothing contained in this Section shall limit the obligations of Major under this Lease pertaining to the cure by Major of any Default to avoid a termination of this Lease or the rights or remedies of Agency to cure any such Default or to take such other actions as may be available to Agency under the provisions of this Lease. Notwithstanding any provision in this Lease to the contrary, the limitation on Major's liability under this section shall apply to any judgment or order (monetary, equitable or otherwise) obtained against Major.

No ejectment, reentry or other act by or on behalf of Agency shall constitute a termination unless Agency gives Major notice of termination in writing. Such termination shall not relieve or release Major from any obligation incurred pursuant to this Lease with respect to the period prior to the date of such termination.

The right of termination provided by this Section 13.4 is not exclusive and shall be cumulative to all other rights and remedies possessed by Agency, and nothing contained herein shall be construed so as to defeat any other rights or remedies to which Agency may be entitled.

Agency's right to reenter and repossess under this Section 13.4 shall be subject to and be limited by and shall not defeat, render invalid, or limit:

(A) Any rights or interests provided in this Lease for the protection of (i) the holder of any Mortgage, deed of trust or other security instrument, (ii) the sublessor under such a sale and leaseback, or (iii) the grantee under such other conveyance for financing; or

(B) The rights or interests under the REA or Parking Covenants of any non-defaulting party thereto and, with respect to the defaulting party, that party's rights and interests under the REA or Parking Covenants not impacted by the default.

13.5 Recovery Upon Termination. Upon any such termination of this Lease, in addition to all other rights and remedies it may have and subject to Section 13.4, Agency may recover from Major:

(A) The worth at the time of award of any and all sums payable hereunder which are due, owing and unpaid by Major to Agency at the time of termination;

(B) The worth at the time of award of any and all sums payable hereunder which would have come due after termination until the time of award, reduced by the amount, if any, of such loss which Major proves could have been reasonably avoided; and

(C) All other amounts necessary to compensate Agency for all the detriment proximately caused by Major's failure to perform its obligations prior to the recordation of the Certificate of Completion under the Lease or which in the ordinary course of things are likely to result therefrom, which shall specifically include all costs, including attorneys' fees, of repossession, removing persons or property from the Lease Premises, repairs, reletting, including leasing commissions, and reasonable alterations, if any, of the Lease Premises in connection with any reletting.

13.6 Additional Remedies of Agency. Upon the occurrence of an Event of Default, Agency, at its option, may thereafter (but not before):

(A) Correct or cause to be corrected the Default relating to such Event of Default (other than construction of the Improvements or payment of the indebtedness under any Mortgage which Agency may not cure on behalf of Major) and charge the costs therefor to the account of Major;

(B) Continue this Lease and Major's right to possession in effect and enforce its rights and remedies under this Lease, including the right, subject to Section 13.4 of this Lease, to recover any amounts to be paid by Agency hereunder as such amounts become due as provided in Section 1951.4 of the California Civil Code;

(C) Have a receiver appointed to take possession of Major's interest in the Lease Premises and the Improvements, with power in said receiver to administer Major's interest therein, to collect all funds available to Major in connection with its operation and maintenance thereof; and to perform all other acts consistent with Major's obligations under this Lease as the court deems proper; or

(D) Terminate this Lease pursuant to Section 13.4 hereof, by written notice to Major of its intention to do so.

Agency shall have the right to enter onto the Lease Premises for the purpose of correcting or causing to be

corrected any Default relating to an Event of Default. Any such entry shall be made only after reasonable notice to Major.

The rights reserved in this Section 13.6 shall not create any obligations on Agency or increase obligations imposed on Agency elsewhere in this Lease, and shall not defeat, render invalid or limit the rights or interests expressly provided in this Lease for the protection of Mortgagees.

13.7 Unperformed Covenants by Agency.

(A) If Agency shall fail to perform any of the terms, provisions, covenants or conditions to be performed or complied with by Agency pursuant to this Lease or if Agency should fail to make any payment which Agency is required to make hereunder (Agency Default), then Major shall give written notice thereof to Agency. If any such Agency Default shall remain uncured for a period of thirty (30) days after the date of Major's notice, then Major shall have the right, to be exercised at any time prior to commencement of Agency's cure of such Agency Default, to perform any such term, provision, covenant or condition or to make any such payment, as Agency's agent, and in Major's sole discretion as to the necessity therefor, and Major shall not be liable or responsible for any loss or damage resulting to Agency or anyone holding under Agency on account thereof. The full amount of the cost and

expense entailed, or payment so made, shall immediately be owing and payable by Agency to Major, and Major shall have the right, in addition to any other rights or remedies Major may have, to deduct the amount thereof, together with interest at the maximum legal rate thereon from the date of payment, without liability or forfeiture, from any payment by Major to Agency then due or thereafter coming due hereunder, and irrespective of who may own or have any interest in the Lease Premises at the time such deductions are made.

(B) Notwithstanding the foregoing, if Agency disputes Major's determination that an Agency Default has occurred and delivers notice of such dispute to Major, and if such dispute is made in good faith, then no amount shall be deemed due and owing by Agency nor shall any remedy be pursued by Major (except in the case of emergency) during the pendency of any action or proceeding to determine such dispute; provided, however, that if such action or proceeding results in a final determination unfavorable to Agency, Agency must cure such Agency Default within thirty (30) days following such determination (or, if it is not practicable to cure or remedy such Agency Default within such thirty (30) day period, then Agency must commence the curing or remedying of such Agency Default within said thirty (30) day period and diligently prosecute such cure or remedy to completion). Failure of Agency to cure such Agency Default within the aforesaid period after

determination shall entitle Major to pursue the amount determined to be due and owing or such other remedy as it may have by reason of the Agency Default, conditioned upon permitting Agency to continue to attempt to cure such Agency Default.

Except in the case of emergency, Major shall not be permitted to perform such term, provision, covenant or condition or make such payment on behalf of Agency until such determination proceedings have been concluded in Major's favor. The rights granted in this Section 13.7 are for the sole protection of Major, and the exercise thereof shall not release Agency from the obligation to perform the terms, provisions, covenants or conditions herein provided to be performed by Agency or deprive Major of any legal rights which Major may have by reason of any such default by Agency.

ARTICLE 14

ATTORNEYS' FEES

If any party shall institute any judicial action or proceeding, excluding any arbitration proceeding, relating to violations, threatened violations or failure of performance of or under this Lease, or any default hereunder, or to enforce the provisions hereof, then the prevailing party shall be entitled

to recover its reasonable attorneys' fees from the defaulting party. Reasonable attorneys' fees shall be as fixed by the court. The "prevailing party" shall be the party which by law is entitled to recover its cost of suit, whether or not the action proceeds to final judgment. If the party which shall have instituted suit shall dismiss it against the other party without the concurrence of such other party, the other party shall be deemed the prevailing party.

ARTICLE 15

NOTICES

15.1 Notices to Parties. Any and all notices by Agency to Major, or by Major to Agency, shall be in writing and sent by registered or certified mail, return receipt requested, postage prepaid.

Any notice to Agency shall be given to:

REDEVELOPMENT AGENCY OF THE CITY OF SANTA BARBARA
City Hall
P.O. Drawer P-P
735 Anacapa Street
Santa Barbara, California 93102
Attn: Chairman

and with a copy to:

CITY ATTORNEY
City Hall
P.O. Drawer P-P
735 Anacapa Street
Santa Barbara, California 93102

Any notice to Major shall be given to:

CARTER HAWLEY HALE STORES, INC.
550 South Flower Street
Los Angeles, California 90071
Attn.: Vice President, Real Estate - Legal

and:

SANTA BARBARA ASSOCIATES
c/o Reininga Corporation
600 Montgomery Street
Suite 3600
San Francisco, California 94111

15.2 Mortgagee Notice. The Mortgagee under any Mortgage affecting the Leased Premises shall be entitled to receive notice of any default by the Major, provided that such Mortgagee shall have delivered a copy of a notice in the form hereinafter contained to Agency together with a true copy of the promissory note (or other evidence of indebtedness from Major to Mortgagee and a true copy of the Mortgage showing the recording data of the County Recorder where the Mortgage was recorded). The form of the notice shall be as follows:

"The undersigned, whose address is _____
_____ does hereby certify that it is the holder of a leasehold lien upon the leasehold estate described in Exhibit A attached hereto which lien encumbers the leasehold estate of [Major] in the Paseo Nuevo Shopping Center. In the event that any notice shall be given of the default of [Major] upon whose leasehold estate

this lien applies, a copy thereof shall be delivered to the undersigned who shall have, subject to the terms of that certain Construction, Operation and Reciprocal Easement Agreement dated _____ encumbering such leasehold estate, the right to cure such default. Failure to deliver a copy of such notice to the undersigned shall in no way affect the validity of the notice of default as it respects such Major."

Any such notice to a Mortgagee shall be given in the same manner as provided in Section 15.1 hereof. The failure to deliver a copy of a notice of default to any Mortgagee shall in no event create any liability on the part of Agency, but Agency shall not be entitled to exercise its rights and remedies as to the default declared, except in an emergency, until written notice is given to the Mortgagee in accordance with Section 15.1. If any notice shall be given of the default of Major, such Mortgagee shall have the right to cure such default in accordance with this Lease.

15.3 Change of address. The foregoing parties may at any time change the address by notice to the other parties in writing.

Any notice or other communication sent in the foregoing manner shall be deemed to have been given, made or communicated, as the case may be, on the date the same is delivered in the manner specified above.

ARTICLE 16

ESTOPPEL CERTIFICATE

Each party agrees at any time and from time to time and within thirty (30) days after written request from the other party, to execute, acknowledge and deliver to the requesting party a statement in writing, certifying that (i) this Lease is unmodified and in full force and effect (or if there have been modifications that the same is in full force and effect, as modified, and stating the modifications), (ii) the dates to which any charges hereunder have been paid in advance, if any, and (iii) whether or not there is, to the knowledge of such party, any existing Default or Event of Default in any of the requesting party's obligations under the terms of this Lease, or notice of default served by the delivering party, it being intended that any such statement delivered pursuant to this Article 16 may be relied upon by any prospective purchaser, assignee or subtenant of either party's leasehold estate, or by any prospective or existing Mortgagee. If any such certification shall allege nonperformance by the requesting

party, the nature and extent of such nonperformance shall, insofar as actually known by the delivering party, be summarized therein. If the delivering party fails to execute, acknowledge and deliver to the requesting party such statement prior to the expiration of said thirty (30) day period, such failure shall be conclusively presumed to be a certification that this Lease is unmodified and in full force and effect, that all payments required hereunder have been paid to date and that there is not existing default; provided, however, that such presumed certification shall not relieve the delivering party from its obligations under this Article 16.

ARTICLE 17

TITLE TO IMPROVEMENTS

It is agreed between Agency and Major that during the Lease Term, all Improvements to be erected, attached, or used in connection with the Lease Premises shall remain the property of Major, but upon termination of this Lease, either by expiration of its term or otherwise, the Improvements then located on the Lease Premises but excluding any trade fixtures and personal property located therein or attached thereto shall become the property of Agency. On the date of such termination, Major shall surrender to Agency the Lease Premises "as-is" in their then existing condition and repair, free and clear of all

financing encumbrances created by Major, and all other liens and encumbrances, except those permitted hereby or otherwise created by Agency. At the time of such termination of this Lease, Major covenants and agrees to execute all documents (including, by example but not limitation, quitclaim deed) necessary or desirable to confirm such title in Agency. During the Lease Term, Major alone shall for tax purposes be entitled to depreciation and all tax credits relating to the Improvements located on the Lease Premises.

Any furniture, furnishings, trade fixtures or business equipment on the Lease Premises may be removed by Major at any time during the Lease Term. For purposes of this Lease, the furniture, furnishings, trade fixtures or business equipment described in the foregoing sentence shall not include those major building components or fixtures necessary for operation of the basic building systems such as, but not limited to, the elevators, escalators, chillers, boilers, plumbing, sanitary fixtures, and central air-cooling system. Any furniture, trade fixtures or business equipment not removed by Major within thirty (30) days after termination of this Lease shall at the election of Agency (i) be deemed abandoned by Major and shall become the property of Agency without further compensation or (ii) may be removed by Agency at the cost and expense of Major.

ARTICLE 18

MAINTENANCE, ALTERATIONS AND ADDITIONS

18.1 Maintenance. Major shall at all times during the term of this Lease from and after the completion of the Improvements required to be constructed under Article 7, keep and maintain, or cause to be kept and maintained, all portions of the Leased Premises as provided in and in accordance with Section 14.1 of the REA.

18.2 Alterations and Additions. Major shall have the right at its expense from time to time to make alterations or additions to the Improvements on the Lease Premises, and Agency shall have the rights of review and approval, in accordance with the conditions and procedures set forth in Article 14 of the REA. The right of Major under this Article 18 shall not be construed or interpreted to permit a change in the obligation of Major to use the Lease Premises only as provided in Article 4 and Article 5 of this Lease. Major shall give Agency prior written notice of any such alterations or additions. Upon termination of the Major's leasehold estate, such alterations or additions, if any, then remaining on the Lease Premises shall be considered as Improvements and shall be subject to the provisions of Article 17 of this Lease. Any such work shall be performed and completed strictly in accordance with the laws and

ordinances relating thereto and in compliance with the REA.

ARTICLE 19

TRANSFER AND ASSIGNMENT

19.1 Warranty Against Speculation. Lessee hereby represents and warrants that this Lease, the construction of the buildings, and its other undertakings pursuant hereto, are, and will be used for the purpose of redevelopment of the Lease Premises and not for speculation in land holding. Lessee further recognizes that:

(A) The importance of the redevelopment of the Lease Premises to the general welfare of the community; and

(B) The substantial financing and other public aids that have been made available by law and by the Agency for the purpose of making such redevelopment possible; and

(C) The fact that a change in ownership or control of Lessee or of a substantial part thereof, or any other act or transaction involving or resulting in a significant change in ownership or with respect to the identity of the parties in control of Lessee or the degrees thereof, is for practical purposes a transfer or disposition of the Lease

Premises; and

(D) The property is not to be acquired or used for speculation, but only for development by Lessee in accordance with this Lease.

Prior to the recordation of the Certificate of Completion, Major shall not assign, transfer, sell or otherwise dispose of any of its right, title or interest in this Lease.

During the period Major is required to Operate in accordance with its covenant to Operate under Article 4 and Article 5 of this Lease (which Articles refer to articles of the REA), Major may not assign or transfer its rights, powers and obligations under this Lease in a manner which would constitute a breach of its obligations under the REA.

Major shall not assign or transfer this Lease or any of its right, title or interest therein except in connection with an assignment, sale, transfer or conveyance in accordance with this Lease and the REA.

At the expiration or earlier termination of the Operating Covenant described in Section 18.1 of the REA, there shall be no limitation under this Lease upon the rights of Major to assign, transfer, or convey all or any portion of its rights

except that Major shall only sublease or enter into a concession agreements for a portion or portions of the Lease Premises in a manner consistent with department store practice prevailing at the time such sublease or concession agreement is made.

Any such assignee shall expressly assume by written instrument all of the Major's rights, powers and obligations under this Lease upon the transfer of Major's interest in the Lease Premises. No transfer or assignment shall release or reduce any of the obligations of Major under this Lease, and all such obligations shall continue in full effect as obligations of a principal and not as obligations of a guarantor or surety, to the same extent as though no transfer or assignment had been made.

ARTICLE 20

EMINENT DOMAIN

20.1 Major to Give Notice. In case of a Taking of all or any part of the Lease Premises, or the commencement of any proceedings or negotiations which might result in such Taking, Major shall within a reasonable period of time give written notice thereof to Agency generally describing the nature and extent of such Taking or the nature of such proceedings or negotiations and the nature and extent of the Taking which might

result therefrom, as the case may be.

20.2 Total and Substantial Taking. In case of a Taking of the entire Lease Premises, this Lease shall terminate as of the date title vests in the condemning authority or the date the condemning authority is entitled to possession, whichever first occurs (the "Date of Taking"). In case of a Substantial Taking of the Lease Premises as determined by Major in accordance with Section 16.4 of the REA or in the case of any other Taking that would entitle the Major to terminate the REA as to the Lease Premises, and provided that Major has terminated the REA with respect to the Lease Premises as a result of such Substantial Taking, Major may, at its option, terminate this Lease by written notice to Agency given within one hundred twenty (120) days after the Date of Taking, as of a date specified in such notice.

20.3 Partial Taking. In case of a Partial Taking of the Lease Premises, this Lease shall terminate as to that portion of the Lease Premises subject to the Taking as of the Date of the Taking but shall, unless Major is entitled to terminate the REA as to the Lease Premises and elects to do so, remain in full force and effect as to that portion of the Lease Premises remaining immediately after such Taking, without any abatement or reduction of any sum payable hereunder, and Major shall cause the remaining Improvements on the Lease Premises to

be restored in accordance with Section 16.6.2 of the REA if and to the extent required by the terms of the REA.

20.4 Application of Net Awards and Other Payments. Any Net Awards and Payments received as a result of a Taking shall be applied to Major and Agency as their respective interests may appear.

If the Major's interest under this Lease is subject to any Mortgage, all amounts payable to Major pursuant to this Section 20.4 to the extent permitted by applicable law and required by the Mortgage shall be paid to and applied by the Mortgagee in accordance with the terms of the Mortgage.

ARTICLE 21

DESTRUCTION AND RESTORATION

21.1 Obligations of Major. In case of damage to or destruction of the Improvements located on the Lease Premises or any part thereof during the Lease Term, Major, at Major's sole cost and expense, shall restore and/or rebuild the Improvements as and to the extent required of Major by the REA. Such restoration and/or rebuilding shall be commenced and prosecuted with due diligence and shall be accomplished in accordance with all of the terms and conditions established in the REA.

21.2 Destruction Not a Release. No destruction of or damage to the Improvements located on the Lease Premises or any part thereof shall permit Major to surrender this Lease or shall relieve Major from its obligations under this Lease, and Major waives any rights now or hereafter conferred upon it by statute or otherwise to quit or surrender this Lease or the Lease Premises on account of any such destruction or damage.

21.3 Termination of Lease. Notwithstanding anything contained above, if Major is not required to restore and elects not to restore any damaged or destroyed Improvements on the Lease Premises in accordance with the REA, Major may give written notice to Agency of its intent not to restore within one hundred eighty (180) days after the occurrence of the damage and destruction. This Lease shall terminate as of ninety (90) days after the date of Major's notice of its intent not to restore, provided, however, that prior to the expiration of such ninety (90) day period, Major shall:

(i) Raze the damaged Improvements in accordance with Section 15.7 of the REA;

(ii) Pay any and all sums then due and payable to Agency under this Lease; and

(iii) Deliver possession of the Lease Premises to Agency in accordance with Article 17 above.

(iv) Any insurance proceeds payable to the Major with respect to damage to or destruction of Improvements, merchandise, or furniture, fixtures or equipment, shall be the sole property of Major.

21.4 Application of REA. So long as the REA is in full force and effect as to the Lease Premises, the reconstruction obligations hereunder shall be performed in compliance with and pursuant to the reconstruction provisions of the REA. Upon termination of the REA, the REA construction provisions shall, for the remaining term of this Lease, continue as if incorporated herein and made a part hereof.

ARTICLE 22

ARBITRATION

The parties may only arbitrate those differences and disputes, and only in accordance with the procedures as provided in Article 23 of the REA.

If disputes should arise concerning the same subject matter under both the REA and this Lease, then such disputes

shall be consolidated and resolved pursuant to a single arbitration proceeding.

ARTICLE 23

REA

This Lease and Major's interest in the Lease Premises shall be subject to the REA, and in the event of any conflict between the provisions of this Lease and the provisions of the REA while both documents are in full force and effect, the provisions of the REA shall control.

References to the REA in this Lease are for the convenience of Major and Agency, and to avoid the necessity of repeating the language of the REA. Major and Agency agree, however, that an amendment of the REA by the REA Parties without the express written consent and agreement of Agency shall not constitute an amendment of this Lease. Any change, modification or amendment to the REA affecting the provisions of this Lease shall require the written consent and agreement of Agency, and no provision of the REA incorporated or referred to in this Lease, or the interpretation of which is relevant to the implementation or interpretation of this Lease, shall be amended or changed without such express written consent and agreement. Similarly, any agreement interpreting or implementing the REA or

any judgment of a court or other tribunal which is claimed to interpret the REA or declare the rights of the Parties thereto, shall not be binding or conclusive on Agency and Major unless both Agency and Major are formal parties to such agreement or the proceeding in which the judgment was rendered.

ARTICLE 24

INDEMNIFICATION BY MAJOR

Major agrees to indemnify, defend and save harmless Agency as set forth in Section 10.9 (Construction Indemnity) and 13.2 (Indemnity-Developer, Broadway and Nordstrom Tracts) of the REA.

ARTICLE 25

MISCELLANEOUS

25.1 Successors and Assigns. Each of the terms, covenants and conditions of this Lease shall extend to, be binding upon, and inure to the benefit of Agency and Major, and each of their respective successors, legal representatives and assigns. Whenever reference is made in this Lease to either Agency or Major, the reference shall be deemed to include, wherever applicable, the successors, legal representatives and

assigns of such parties with the same force and effect as if in every case expressed.

25.2 Language. The words "Agency" and "Major" wherever used herein shall be applicable to one or more persons as the case may be, the singular shall include the plural, and the neuter shall include the masculine and feminine, and if there be more than one, the obligations hereof shall be joint and several. The word "person" wherever used shall include individuals, firms, partnerships, associations and corporations. The language in all parts of this Lease shall be in all cases construed as a whole and according to its fair meaning and not strictly for or against Agency or Major.

25.3 Memorandum of Lease. The parties agree to execute a memorandum of this Lease containing provisions acceptable to the parties in proper form for recordation and to record such memorandum in the Official Records of Santa Barbara County, California.

25.4 Force Majeure. Each party shall be excused from performing any obligation or undertaking provided in this Lease, except for any obligation to pay any sums of money under applicable provisions hereof, unless such payment is for an obligation or undertaking excused, delayed or extended by the provisions of this Section 25.4, so long as the performance of

such obligation or undertaking is prevented or delayed, retarded or hindered by an Unavoidable Delay (as that term is defined and in accordance with the procedures in the Section 28.1 of the REA).

25.5 Correction of Legal Description of Lease Premises. It is recognized that by reason of construction errors, the Improvements located on the Lease Premises may not be precisely constructed within the Lease Premises as described in Exhibit "A" hereof. If the Improvements of Major have not been precisely constructed within the Lease Premises, Agency and Major will cause the legal description of the Lease Premises to be revised in accordance with Section 3.7 of the REA. Nothing herein contained shall be deemed to relieve or excuse Major from exercising all due diligence to construct its Improvements within its Tract as described on Exhibit "A" hereof and as shown on Exhibit "B" hereof.

25.6 Counterparts. This instrument may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

∴ 25.7 Invalidity. If any term or provision of this Lease or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, the remainder

of this Lease, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and the same shall not constitute any cause of action in favor of either party as against the other, and each term and provision of this Lease shall be valid and be enforced to the fullest extent permitted by law.

25.8 No Agency. It is understood and agreed that nothing contained in this Lease nor in any act of the parties hereto shall be deemed to create any relationship between the parties hereto other than the relationship of lessor and lessee.

25.9 Effect of Agency's Conveyance. If Agency shall transfer its interest in the Lease Premises during the Lease Term, then from and after the effective date of such sale, Agency shall be released and discharged from any and all obligations and responsibilities under this Lease except those already accrued and those arising out of acts or omissions which occurred prior to the date of such transfer, provided that

Agency's successor shall have expressly assumed the obligations of Agency hereunder.

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the day, month and year first above written.

CARTER HAWLEY HALE STORES,
INC., a Delaware corporation

By _____
Its _____

By _____
Its _____

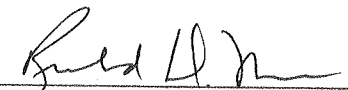
"Major"

APPROVED AS TO FORM:



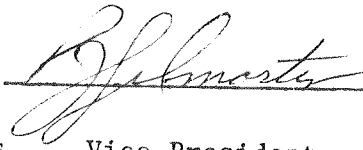
City Attorney

REDEVELOPMENT AGENCY OF THE
CITY OF SANTA BARBARA

By  _____

"Agency"

CARTER HAWLEY HALE STORES,
INC., a Delaware corporation

By 
Its Vice President

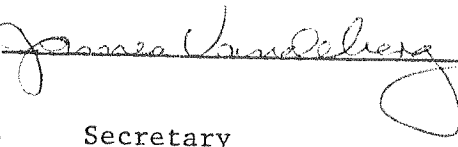
By 
Its Secretary

EXHIBIT A

BROADWAY

LEGAL DESCRIPTION

Parcels 3, 9, 10 and 11 of Parcel Map No. 20,504 in the City of Santa Barbara, County of Santa Barbara, State of California, as per map recorded in Book _____, Pages _____ through _____, inclusive of Parcel Maps, in the office of the County Recorder of said County.

EXCEPTING from a portion of said land all oil, gas and mineral substances, provided that the surface opening of any well, hole, shaft or other means of exploring for, reaching or extracting such substances shall not be located within the Central City Redevelopment Project and shall not penetrate any part or portion of said project area within 500 feet of the surface thereof, as reserved in various documents of record.

FIELD
PAOLI

1000 Broadway
New York, N.Y. 10003
Tel. (212) 691-1000
Fax (212) 691-1001

PASEO NUEVO
SANTA BARBARA, CA

DEVELOPER
Hilltop Corporation
and Hilltop Development
San Francisco, CA 94104
949-233-0000
Hilltop Development

CONSULTING DESIGN ARCHITECTS
PAOLI/PAOLI

DATE: JANUARY 26, 1999
BY: [Signature]

**Broadway Lease
Exhibit B**

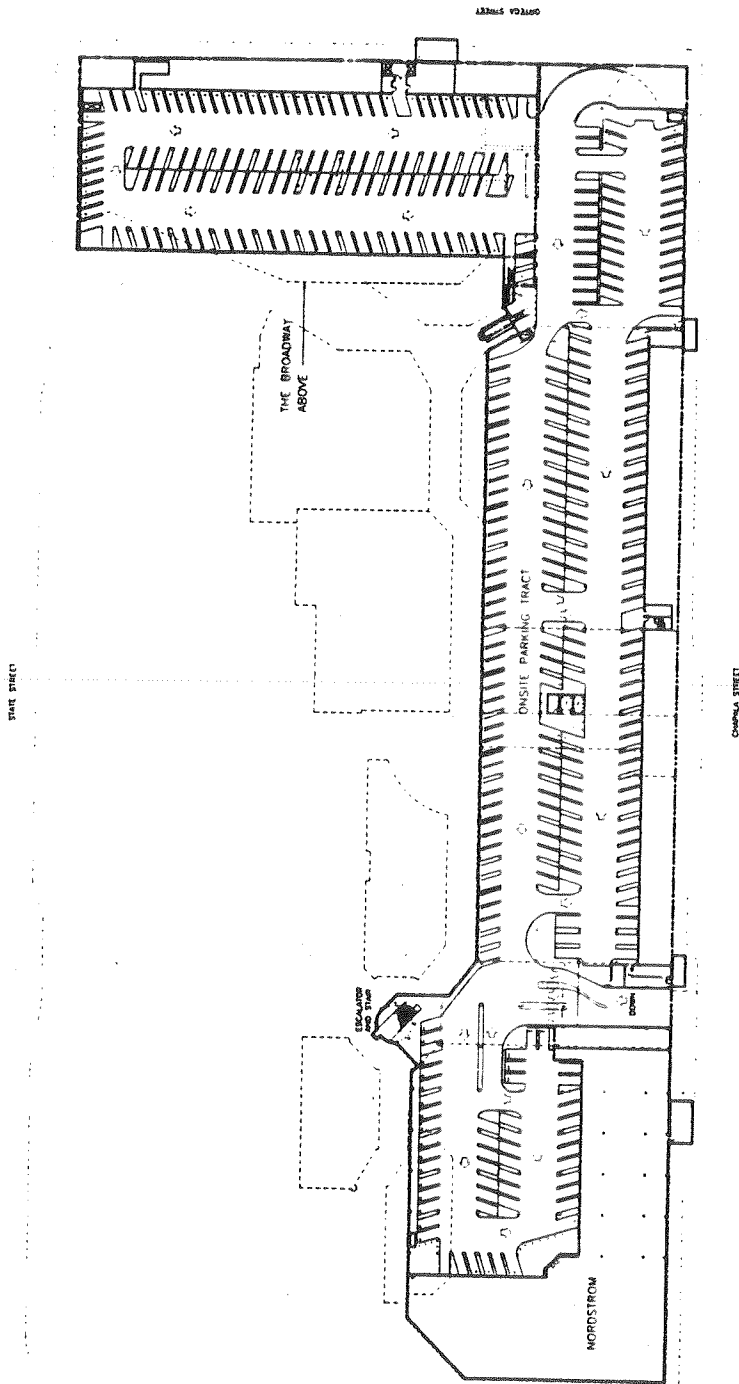
1 of 3



SITE MAP

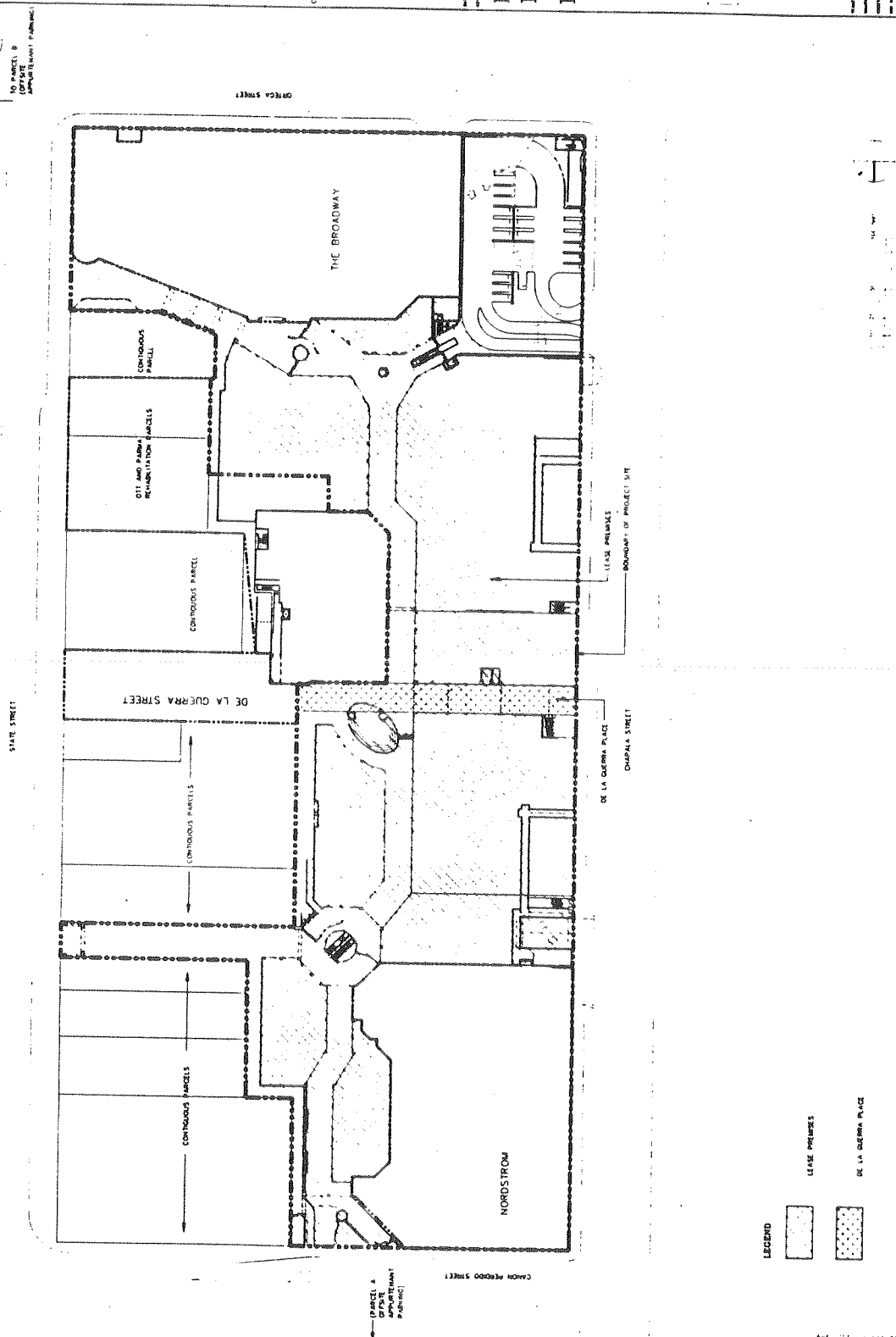
Scale: 1" = 100' / 1" = 30.48m
Date: 1/26/99
By: [Signature]

PAGE 1 OF 3



**BROADWAY LEASE
EXHIBIT B**

1 of 3



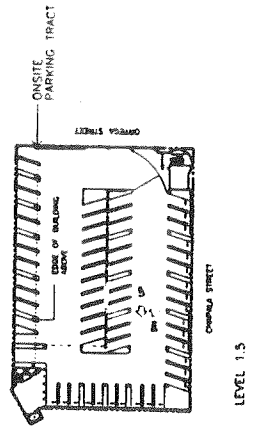
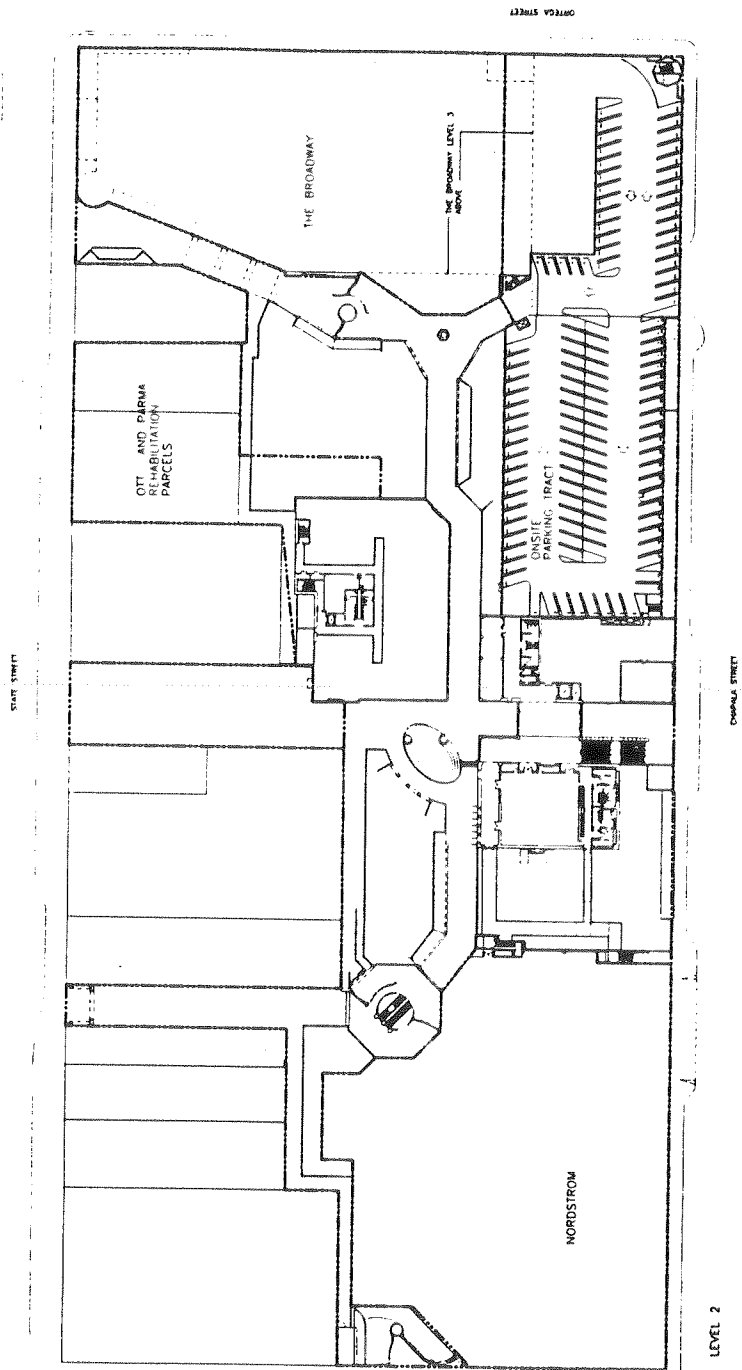


EXHIBIT "C"

PROJECT COSTS

TO BE ATTACHED, IF AT ALL, SUBSEQUENT TO CLOSE OF ESCROW